



January 4, 2006

Mr. Richard Krolak  
Chief, CalPERS Office of Long Term Care  
400 P Street, 5<sup>th</sup> floor  
Sacramento, CA 95814

Subject: Actuarial Valuation of the CalPERS Long Term Care Program  
as of June 30, 2005 – Report Addendum

Dear Mr. Krolak:

This document is intended to serve as the addendum to the valuation report referenced in the "Recommendations" section of that report.

**Proposed Mitigation Initiatives**

The first recommendation presented in the valuation report reads as follows:

"Implement one or more initiatives effective as soon as possible that, in the aggregate, would impact projected future results in a manner consistent with the impact of a 20% rate increase."

Based on our work with the CalPERS LTC Program and on discussions with CalPERS staff and LTCG actuarial staff, we would propose the following initiatives for consideration (in order of projected financial impact – greatest to least):

- 1) Increase rates for all inforce policies:
  - a) By 20% across the board.
  - b) By an average of 20%. One approach to this would be to increase inforce rates to be more consistent with those currently used for new business for corresponding benefit designs.
- 2) Cap maximum daily benefit amounts for policies with inflation coverage at (for example) two times the original maximum daily benefit amount.

Projected Impact (Expressed as a Rate Increase): The projected impact of implementing this change will be discussed during our meeting on January 9<sup>th</sup>.

- 3) Migrate lifetime benefit period policies to 6-year benefit period policies, or at least actively promote/incent policyholders to do so.

Projected Impact (Expressed as a Rate Increase): The projected impact of implementing this change will be discussed during our meeting on January 9<sup>th</sup>.

- 4) Implement improved claims management processes/procedures. LTCG personnel are available to discuss this opportunity in more detail.

Projected Impact (Relative to a 20% Rate Increase): The impact of implementing this change would be consistent with an aggregate rate increase of 2%-3%.

We are open to discussing the above or any other proposed initiatives in more detail.

As referenced previously any one or combination of these proposed initiatives could be used, keeping in mind that the intent of the recommendation quoted above is that the impact of any initiatives in the aggregate would impact projected future results in a manner consistent with the impact of a 20% rate increase.

**Conclusion**

Please feel free to contact me with questions/comments regarding anything presented in the valuation report or this addendum at (317)575-7672 or via e-mail at [kvolkmar@uhasinc.com](mailto:kvolkmar@uhasinc.com).

Sincerely,



Karl G. Volkmar, FSA, MAAA, FCA  
Consulting Actuary